Please write clearly in block capitals.

Centre number | | | | | | Candidate number | | | | |

Surname _____

Forename(s) _____

Candidate signature _____
I declare this is my own work.

A-level
BUSINESS

Paper 3 Business 3

Sample assessment material

Time allowed: 2 hours

Materials
For this paper you must have:
- a calculator
- the Formulae Sheet (enclosed).

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this answer book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 90.

For Examiner's Use	
Question	Mark
1.1	
1.2	
1.3	
1.4	
1.5	
2.1	
2.2	
2.3	
2.4	
2.5	
TOTAL	

Answer **all** questions in the spaces provided.

0 1

Microsoft

Microsoft is a leading US-based seller of:

- computer hardware and software
- mobile and gaming systems
- cloud (online) services.

Its international operations provide a significant proportion of its turnover and costs. Many of its transactions are in currencies other than the US dollar. The company operates in fast-changing technological markets. It is a high-profile business already, with a market capitalisation of over $2 trillion, but wants to expand further and maintain a high share price.

In 2023, Microsoft acquired Activision Blizzard for $75 billion. The deal brought Activision Blizzard's decades of experience in the gaming industry and its strong portfolio of games (including Call of Duty and World of Warcraft) together with Microsoft's online operations. This would allow anyone to access the computer games wherever and whenever they want, helping Microsoft to become a dominant player in the rapidly growing games market. To allow the acquisition to go ahead, Microsoft had to get permission from the UK competition authority. Following the deal, Microsoft needed to change the culture at Activision Blizzard, where there had been several claims of harassment and poor behaviour.

Microsoft is also investing heavily in Artificial Intelligence (AI). It has a 49 per cent share in the AI company, Openai, which developed ChatGPT. Being an agile organisation is important to Microsoft's long-term success.

Microsoft says it is committed to Corporate Social Responsibility and seeks to conduct business in ways that are ethical, transparent and accountable to key stakeholders. It provides a wide range of data in its Environmental, Social and Governance (ESG) reports.

Sources: The Economist, 2023; Microsoft, 2024

Table 1: 2023 Microsoft financial data

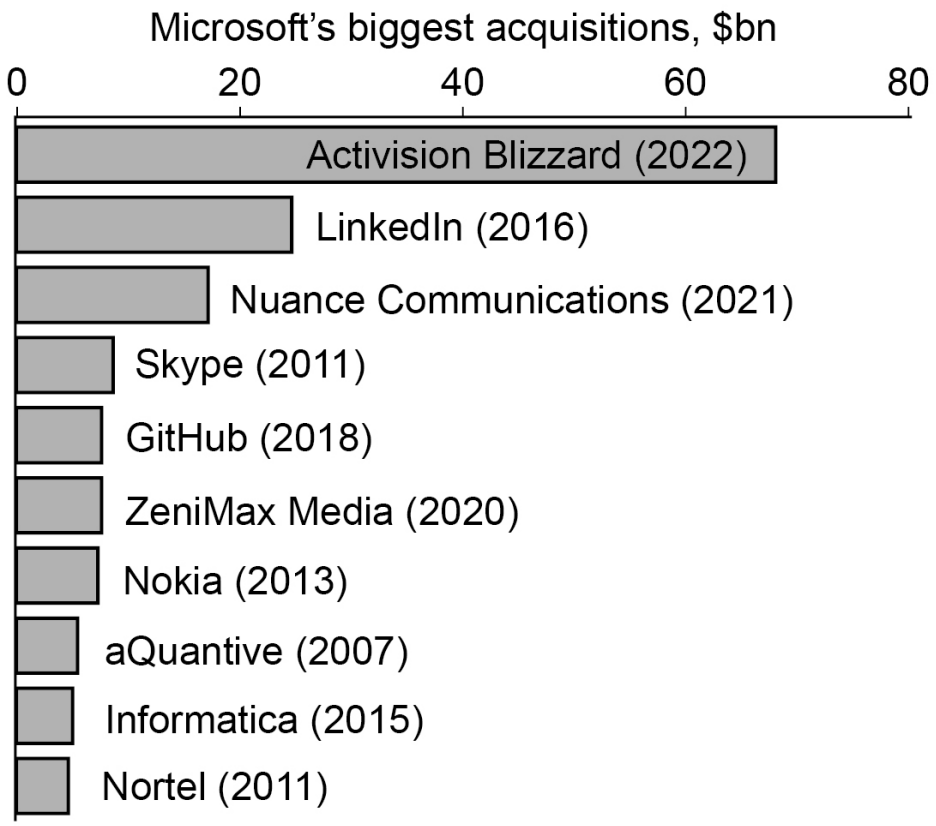
Net profit	$72 bn
Non-current liabilities	$206 bn
Capital employed	$308 bn

Source: Microsoft, 2024

Table 2: Fictional SWOT analysis for Microsoft 2023

Strengths	**Weakness**
High quality research and development. 69,000 patents. High levels of R&D spending in 2023: over $27 bn (13% of revenue). High operating profit margins; over 40%. Apple and Meta are around 30%. Well known and trusted brand	High levels of Trade Receivables (over $40 billion in 2022).
Opportunity	**Threats**
Greater use of cloud computing services by businesses. More acquisitions Greater use of IT technology	Greater competition in the industry Threats of computer viruses and attacks from hackers Changes in exchange rates

Figure 1: Microsoft's largest acquisitions $bn



Source: adapted from The Economist, 2023

0 1 . 1 Analyse why exchange rate changes are a risk to Microsoft.

[6 marks]

6

0 1 . 2 Analyse why being agile is important for Microsoft's long-term success.

[6 marks]

6

Turn over ►

0 1 . 3 Assess whether undertaking a SWOT analysis will help Microsoft ensure it chooses the right strategies.

Use **Table 2** to support your answer.

[9 marks]

9

0 1 . 4 Assess whether reporting on a wide range of Environmental, Social and Governance (ESG) data is a good decision for Microsoft's shareholders.

[9 marks]

9

Turn over ►

0 1 . 5 Is it better for Microsoft to expand through:

- internal growth

or

- external growth?

Assess both options and make a judgement.

[15 marks]

15

Turn over ►

0 2 Read the information below and then answer the questions that follow.

The closure of Wilko

Retailer Wilko closed down in summer 2023. Wilko employed around 12,500 people in over 400 stores. Its turnover was over £1 billion per year (see Appendix A).

Wilko's shops offered a wide range of very different products including:

- sweets
- home decorating products
- furniture
- personal care products

Wilko was positioned as a low-cost, bargain shop, popular for shoppers without cars due to the high street locations of its stores. Average price elasticity across its products was estimated at -2.3 compared with rivals' averaging -1.8.

Causes of Wilko's failure

- Competition: Wilko had been being beaten on price by B&M, Home Bargains and Poundland and offered no clear point of differentiation, unlike higher-priced rivals Ikea and Dunelm.

- Inflation: In 2023, UK inflation was over 10 per cent for the first time in over 30 years. This significantly increased costs for businesses and prices for consumers. This led to a 'cost of living crisis' for many as wages rose more slowly than prices. This was especially true for those who were low wage earners.

- Location: Wilko's high street locations meant it paid high rent and rates. Analysts suggested that these costs were too high for Wilko's low-margin business model. Rivals B&M and Home Bargains favoured cheaper locations in out-of-town shopping centres.

- Supply chain issues: Wilko's wide product range made it hard to keep all its shelves fully stocked. This became a particular problem during and after the COVID-19 lockdowns as output from suppliers was limited but demand from retailers, including Wilko, only fell a little. Wilko's stores were left with gaps on shelves.

- Lack of digital strategy: Wilko's limited commitment to e-commerce meant only some of its product range was available through its website. Users criticised the website for its poor design and difficulty of use. Behind the scenes, processes were slow and inefficient. These problems became especially notable during 2020 and 2021 lockdowns.

The closure

Wilko had been dealing with falling revenue by reducing the number of staff and closing less profitable stores. Ultimately, the end came because Wilko started running out of cash to pay suppliers. These suppliers then withdrew the credit they had been offering Wilko. This resulted in even more empty shelves as suppliers refused to supply them until earlier bills were paid.

Several of Wilko's rivals made offers to buy some of its stores. They were gambling on negotiating lower rents and attracting Wilko's customers.

Appendix A: Extracts from Wilko's final published accounts, 2021 and 2022

	2022 (£000)	**2021 (£000)**
Turnover	1 241 242	1 283 251
Cost of sales	739 759	757 586
Gross Profit	501 483	525 665
Expenses	539 055	520 602
Operating (loss)/profit	(37 572)	5 063

Source: Companies House, 2024

Appendix B: Fictional information to inform Wilko's competitor's decision on whether to buy 50 empty stores

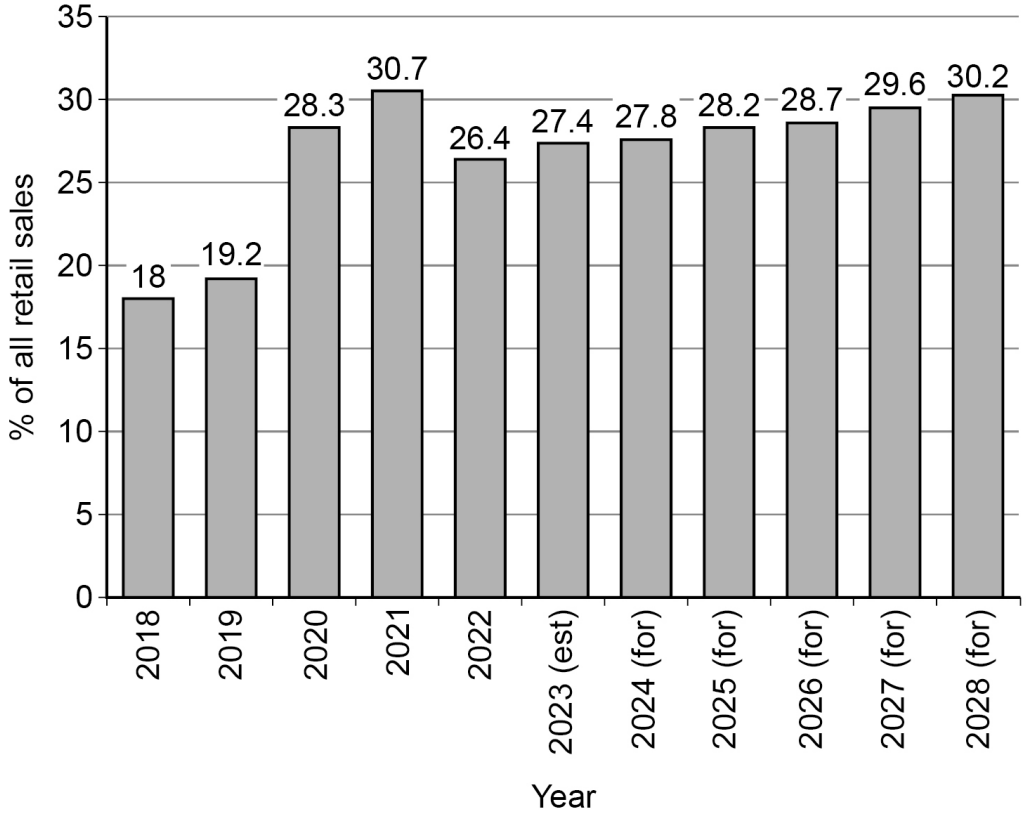
Table 1: Estimated investment appraisal data on the 50 stores

Initial investment	£10m
Payback	5 years and 3 months
ARR	15%
Net Present Value (at 10% discount rate)	£1.1m

Table 2: Wilko's competitor's investment criteria

- Investments should payback within 5 years.
- Current Return on Capital Employed (ROCE) = 10%
- Gearing ratio = 20%
- The investment would be funded by a five-year loan with a 7.5% interest rate, which would double the value of the business' non-current liabilities.

Appendix C: Online sales as a percentage of all UK retail sales 2018-2028



Source: adapted from ONS, 2024

Appendix D: Estimated proportion of customer spending in UK by product type, 2023

Product type	**Proportion of spend (%)**
Clothing and footwear	61
Personal care	53
Consumer electronics	37
Furniture and home decorating products	19
Sweets	9

0 2 . 1 Analyse why high inflation was a major problem for Wilko.

[6 marks]

6

0 2 . 2 Analyse how contingency planning might have helped Wilko to survive.

[6 marks]

6

0 2 . 3 Assess whether greater investment in e-commerce would have helped Wilko survive.

Use **Appendix C** and **Appendix D** to support your answer.

[9 marks]

9

Turn over ►

0 2 . 4 Imagine you are the Chief Executive of one of Wilko's competitors pursuing a growth strategy. Your finance director has identified 50 empty Wilko stores for sale in High Streets where you currently have no store.

Assess whether you should make the investment.

Use **Appendix B** to support your answer.

[9 marks]

9

0 2 . 5 Was the biggest cause of Wilko's failure:

- growing supplier power

or

- competitive rivalry?

Assess both options and make a judgement.

[15 marks]

END OF QUESTIONS

15

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